LABORERS' INTERNATIONAL UNION OF NORTH AMERICA

July 22, 2008

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-13-08

Dear Secretary Morris:

The Laborers' International Union of North America (LIUNA) represents over 500,000 men and women who work primarily in the construction industry. Our Union's members have been triply affected by the housing crisis and credit market turmoil – over one million construction workers have lost their jobs, millions face foreclosure, and losses to investors, including our pension funds, are estimated at over $1 trillion. It is in our capacity as investors and on behalf of our members that we are writing to comment on the SEC's, "Proposed Rules for Nationally Recognized Statistical Rating Organizations", (S7-13-08).

LIUNA has over 100 individual benefit funds that invest assets of over $32 billion to provide retirement security for our members. Our Department of Corporate Affairs has been tracking the housing and credit crisis on behalf of our funds and has helped to coordinate a multi-faceted response. LIUNA trustees are fully aware of their fiduciary duties to these funds and we have taken the following actions over the past 18 months: surveyed our funds regarding exposure to collateralized debt obligations (CDO's) with emphasis on residential mortgage-backed securities (RMBS's); reviewed fixed-income investment policy and guidelines; held national conversations with fixed income managers to assess the problem and review their policies; and addressed the issue in several national meetings of our LIUNA Pension Fund Task Force which represents our largest 25 funds and represents over 70% of our pension fund assets.

In addition, we identified and researched key industries and companies that we believed played major roles in this crisis – homebuilders and their mortgage subsidiaries, mortgage companies, investment banks, other issuers/underwriters and the credit rating agencies. LIUNA pension funds filed shareholder proposals at a number of these companies that were aimed at increasing disclosure and transparency and eliminating or managing conflicts of interest. LIUNA funds, for example, filed shareholder proposals requiring additional disclosure of mortgage practices and operations at Beazer Homes (BZH), Ryland Group (RYL), Bear Stearns and Washington Mutual (WM).

HEADQUARTERS:
905 16th Street, NW
Washington, DC
20006-1765
(202) 737-8320
Fax: (202) 737-2754

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LIUNA funds also filed shareholder proposals at Moody's (MCO), McGraw-Hill (MHP), Citigroup (C) and others that asked that management adopt a policy to more clearly define the relationship between credit rating agencies and issuers/underwriters and to take action to limit or eliminate conflicts. While these proposals were "no-actioned" by the SEC (oddly on the grounds of "ordinary business"), we had numerous meetings, discussions and exchanges with both credit rating agencies and issuers/underwriters regarding establishing clear responsibility for risk management and credit rating oversight, disclosure of additional information that will increase transparency of the rating process and elimination conflicts that we believe contributed to the current crisis.

We are pleased to say that many of the ideas that we advocated regarding true transparency between credit rating agencies and underwriters in 2007 are being adopted or addressed internally by leading companies. However, many such companies continue to be resistant or slow to react and we believe that "self-regulation" will not suffice by itself and additional regulatory oversight is desperately needed.

We believe, in general, that the rules being proposed by the SEC are steps in the right direction and we believe this is a necessary and appropriate role for the SEC. We concur with the comments made by SEC Chairman Christopher Cox on June 11, 2008 when he stated, "At bottom in the subprime mess, of course, were the high-risk mortgages typified by lax loan underwriting, unverified borrower information, and even in many cases, clear signs of fraud in the loan files."[1] While we believe that the adoption of new, stronger rules by the SEC regarding the credit rating agencies is a crucial part of reestablishing investor confidence, additional regulatory changes will be needed to address ongoing conflicts regarding homebuilders and their origination of mortgages, as well as lack of proper risk oversight and disclosure by issuer/underwriters.

1. **Increased disclosure on information and methodologies used to determine credit ratings.**

Fundamentally, LIUNA supports the SEC's efforts to ensure that credit rating agencies provide ratings on products only when proper underlying information is provided and methodologies are disclosed and sufficient historical data is available. We strongly support disclosure of "all information provided to the national recognized statistical rating organization by the

[1] Speech by SEC Chairman: Statement at Open Meeting on Rules for Credit Rating Agencies, http://www.sec.gov/news/speech/2008/spch061108cc.htm

issuer, underwriter, sponsor, depositor, or trustee that is used in determining the initial credit rating for the security or money market instrument, including information about the characteristics of the assets underlying or referenced by the security of money market instrument, and the legal structure of the security or money market instrument" as well as disclosure of all such information that is used in "undertaking credit rating surveillance of the security or money market instrument."[2]

In addition to disclosure of information underlying each credit rating, we also strongly support the proposed rule that Nationally Recognized Statistical Rating Organizations (NRSRO's) be required to publish default and transition statistics for each asset class over 1, 3, and 10 year periods. Such tools will be extremely helpful in providing investors the additional information that will be required when making investment decisions.

We believe that the maintenance of records and disclosure should not only be on the credit rating agency websites, but also be placed on a central depository such as EDGAR. The goal should be to make sure that information provided can be efficiently accessed and analyzed.

We would add the following specific comments regarding disclosure:

When it comes to disclosure, more is better and sooner is better than later. The Council of Institutional Investors (CII) has stated that organizations like credit rating agencies have specific responsibilities and must be "transparent in their methodology, avoid or tightly control conflicts of interest and have robust oversight."[3]

We are concerned about the proposed disclosure exclusion of "information about collateral pools (i.e., "loan tapes") provided by the arranger containing a mix of assets that is different than the composition of the final collateral pool upon which the credit rating is based."[4] We assume that the reasoning here is that information not used in the final collateral pool need not be disclosed. However, in our view, such information is critical if regulators and investors are to be able to analyze whether "out-of-model" adjustments were made and to assess whether credit rating analysts might be, in fact, participating in the structuring of the final pool.

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[2] SEC 17 CFR parts 240 and 249b, Federal Register, pages 23219-36220.
[3] CII Statement on "Transparency, independence and oversight of financial gatekeepers", CII.org.
[4] Federal Register, Vol. 73, No. 123, p. 36220.

We believe that there are a variety of practical ways in which any personal or proprietary information can be protected.

We also strongly support enhanced disclosure of the methodologies used by credit rating agencies including disclosure of the steps taken to verify information (or lack thereof); and disclosure of information obtained from third parties. We agree with the proposal that a report describing methodologies and risk characteristics be attached to each rating. We believe these reports should be monitored to make sure that such information does not become burdensome nor boilerplate.

We believe that disclosure of information relating to significant "out-of-model adjustments" will have increased importance as part of overall reduction of reliance simply on credit ratings themselves as a final product. We would urge the SEC to strengthen its guidance so that credit rating agencies themselves do not have the final say regarding what constitutes such adjustments. Further, we believe that such information is a critical factor for investors and their ability to assess the integrity of the rating.

Finally, we believe that disclosures should be made prior to the pricing date. We believe that the extra time will provide a broader opportunity for other NRSRO's to determine an unsolicited rating. LIUNA funds as investors take seriously their obligation to reduce reliance on individual ratings and we believe that rules that will allow and encourage a broader range of unsolicited ratings is part of this effort.

2. **Conflicts of Interest Disclosure**

The Council of Institutional Investors (CII) has stated that "...conflicts of interest are inherent in nearly all of the agencies designated by the Securities and Exchange Commission as Nationally Recognized Statistical Rating Organizations because they are paid by the issuers of securities they rate."[5] Our discussions with various credit rating agencies and issuers/underwriters have increased our belief that fundamental conflicts exist and must be addressed. We applaud the SEC's efforts in this area and provide the following additional comments:

We strongly concur that NRSROs must be barred from issuing a rating on a security they helped to structure. We believe that additional

[5] CII Statement, IBID.

guidance needs to be provided by the SEC that helps to define what is acceptable feedback during the rating process versus recommendations about how to obtain a desired rating. At minimum, as noted above, we believe that all preliminary information supplied to the NRSROs should be disclosed including original as well as final "loan tapes". The goal must be to enhance the ability of the SEC and investors to determine whether discussions have been limited to clarification of information or have strayed into active "financial engineering". NRSROs should be required to disclose their internal policy, and methods by which they monitor such behavior.

We believe that NRSRO's should be required to file an annual report that details their internal policy, enforcement and oversight methods as well as any actions taken to ensure that their employees are not rating a security they helped to structure. The report should also include information regarding the reassignment of an analyst from the responsibility to rate a product of a specific issuer/underwriter and that communications between analysts and issuer/underwriters be retained. This report should include a "look back" regarding the employment relationships between NRSRO employees and issuer/underwriter employers and any complaints from issuers or investors about the performance of an analyst involved in the rating process. Finally, the report should require more stringent and detailed disclosure of any other services that are offered to an issuer/underwriter in addition to actual credit ratings.

We note that the SEC rules will not require public disclosure of some of this information and we believe that an annual report as suggested above could provide a vehicle for a summary that protects proprietary information yet discloses information that would be helpful to investors.

The fee structure underpinning most of the current NRSROs is a major concern and source of real or potential direct conflicts. We strongly concur with the SEC's proposal to prohibit rather than simply manage the conflicts between those NRSRO employees involved in fee discussions and those involved in the credit rating analytical process. We believe further that the prohibition should be extended to cover participation of those with supervisory functions. While smaller NRSROs may experience some practical difficulties in implementing these prohibitions, the importance of this rule overweighs such administrative problems.

In conclusion, we have not provided specific comments on rules regarding new nomenclature and other topics. As investors, our funds will be undertaking an in depth review of our investment policies and references to NRSROs or specific rating requirements. We suspect that some adjustments will be needed depending on the final rules and other potential legislative changes.

We fully believe that additional steps will be necessary in order to fully address the "subprime/credit crisis" and restore investor confidence. In our view, other issues that must be addressed include the following:

1. The SEC should either require that issuers/underwriters be required to increase and disclose risk assessment and management of conflicts or shareholders must be allowed to address such issues through a shareholder proposal process. We believe investors are currently caught in a "Catch 22" whereby the types of scrutiny now being advocated by the SEC regarding NRSROs is not required of issuers/underwriters or mortgage originators but attempts by shareholders to address such issues are considered "ordinary business" by the SEC and are "no-actioned".

2. We also believe that homebuilders and other mortgage originators must be subjected to additional oversight and investors must be allowed to propose additional oversight and disclosure through the shareholder proposal process.

In the future, we would suggest that investors are more closely consulted in the drafting of proposed rules. We believe that such input would have a favorable impact on making sure that such language is in plain English and is more investor friendly. We would be happy to provide additional information or support for our comments or to meet with SEC staff to discuss the issues in this comment letter.

Sincerely,

Richard Metcalf, Director
Corporate Affairs Department

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